

July 29, 1999

CENTRAL MAINE POWER COMPANY
Request for Approval of RFP Pursuant to
Chapter 307

ACCOUNTING ORDER

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

Summary

On July 13, 1999, Central Maine Power Company (CMP) filed a request that the Commission issue an accounting order which would allow CMP to defer the costs of negative clearing prices, backdown charges and sanctions incurred by CMP and arising from its power purchase agreements with qualifying facilities (QFs). Through this Order, we grant CMP's request.

Background

Pursuant to Chapter 307 of the Commission's rules, CMP filed a proposed request for bids package that would govern its sale of the rights to capacity and energy from its undivested generation assets and QF agreements. As part of its filing, CMP proposed that the buyers of the rights to the capacity and energy be subject to the payment of any negative clearing prices, backdown charges, and sanctions associated with CMP's QF agreements.

The issues of negative clearing prices, backdown charges and sanctions arise as a result of the newly-established NEPOOL market system. Under the prior rules, CMP had been able to treat QFs as "must run" generation that is not subject to dispatch by NEPOOL. However, under the new market rules, CMP must provide ISO-NE with an energy bid for its QF power. CMP may "self-schedule" the QF power, but the self-schedules are subject to rejection by ISO-NE if the output would cause a transmission constraint, excess generation problem, or other reliability constraint. Depending on the circumstance, CMP may be required to pay backdown charges or negative clearing prices if deliveries of its QF power are not curtailed.

During discussions with CMP regarding its Chapter 307 filing, our staff expressed concern about placing the risk of negative clearing prices, backdown charges, and sanctions associated with QF agreements on the buyers of the output. Because the NEPOOL markets have only recently been established, there is considerable uncertainty regarding the future frequency and magnitude of circumstances resulting in negative clearing prices or backdown charges, as well as the magnitude of such charges. For this reason, potential bidders may discount their bid prices significantly to

account for this uncertainty. Our staff stated its view that it may be preferable to promote higher bid prices by not subjecting buyers of the QF output to the risks of these costs and charges; if such charges did in fact occur, they would instead be paid by CMP and recovered through rates.

On July 16, 1999, CMP filed a revised Chapter 307 package that, among other things, removed the risks of QF-associated costs and charges from the buyers of the QF output. To allow for the recovery of these costs, if they occur, CMP requests accounting order permitting cost deferral. CMP notes that the costs of negative clearing prices, backdown charges and ISO-NE sanctions have not been accounted for in any ratemaking proceeding and that it is not possible to estimate the magnitude of these potential costs at this time. For these reasons, CMP states that it is appropriate to defer these costs for future recovery in rates.

Discussion

We conclude that an accounting order allowing for the deferral of QF-associated cost is warranted under the situation presented in CMP's request. Although deferral of costs for later recovery is an exceptional ratemaking mechanism, it is justified in this case. The primary goal of selling the output of CMP's QF agreements is to maximize the bid prices, thus minimizing the amount of stranded costs that ratepayers must pay. We agree that the uncertainty regarding the frequency and magnitude of QF-associated costs and charges could significantly depress bid prices if the buyers of the output are responsible for payment. It is, therefore, reasonable to remove that risk from buyers and allow the costs and charges, if they occur, to be recovered by CMP through its rates.

We agree with CMP that a deferral order in this case is appropriate, because there is no reasonable means to project the extent of QF-associated costs and charges. We recently allowed deferrals of specific QF-related costs and savings for similar reasons. See Order, Docket No. 97-580 at 110 (Mar. 19, 1999); Docket No. 97-580 at 10-11 (June 22, 1999). As with any deferral order, CMP is under a general obligation to act, using reasonable business practices, to minimize the amount of costs deferred for later recovery.

Accordingly, we

ORDER

1. That Central Maine Power Company is hereby authorized to defer in an appropriate deferred debit account, beginning March 1, 2000, all costs associated with negative clearing prices, backdown charges and sanctions incurred by CMP and arising from its Power Purchase Agreements with Qualifying Facilities, pending Commission action in future stranded cost proceedings;

2. That Central Maine Power Company may record carrying costs on the net deferred balance at its most recently approved cost of capital; and

3. That Central Maine Power Company defer any tax effects associated with the costs deferred pursuant to this Order.

Dated at Augusta, Maine, this 29th day of July, 1999.

BY ORDER OF THE COMMISSION

Raymond J. Robichaud
Assistant Administrative Director

COMMISSIONERS VOTING FOR:

Welch
Nugent
Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Civil Procedure, Rule 73, et seq.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

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